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UNCLAS SECTION 01 OF 02 PRETORIA 005313

SIPDIS

DEPT FOR AF/S; AF/EPS; EB/TPP/MTA  
USDOC FOR 4510/ITA/IEP/ANESA/OA/JDIEMOND  
COMMERCE ALSO FOR HVINEYARD  
TREASURY FOR BRESNICK  
DEPT PASS USTR FOR PCOLEMAN

E.O. 12958: N/A

TAGS: ETRD KTEX ECON SF USTR

SUBJECT: SACU TO NEGOTIATE FREE TRADE DEAL WITH INDIA

**11.** Summary: The Southern African Customs Union (Sacu) and India will start free trade negotiations in the middle of 2005. The free trade talks would evolve in two stages, starting with the establishment of a preferential trade agreement covering trade in goods, to be later upgraded into a free trade agreement, to cover services, investment and procurement. Free market access should boost trade between SACU and India, as the two regions are currently not really important trading partners. Sacu's textile, clothing and electronics industries are expected to come under serious threat from Indian imports if the trade barriers come down. End Summary.

**12.** On November 26, 2004 Embassy's economic specialist attended the launch of a publication on the proposed Sacu-India Free Trade agreement, organized by the South African Institute of International Affairs and the University of the Witwatersrand's Business School. This cable reports on some of the important points raised by the speakers at the launch.

**13.** According to Willem van der Spuy, director of Asian bilateral trade programmes at the Department of Trade and Industry, Sacu and India will start free trade negotiations in the middle of 2005, and hope to conclude the negotiations by the end of 2005. South Africa and India have been in talks on and off since 2001, and managed to sign a framework agreement in 2002, but progress was halted by the renegotiation of the Sacu agreement. Van der Spuy said that in June 2004 SACU ministers formally agreed to re-open negotiations with India, and in September 2004 a new framework agreement was discussed according to which free trade talks would evolve in two stages. The first phase would focus on establishing a preferential trade agreement (PTA) covering trade in goods. This would enable local exporters to have free market access to India's \$2.66 trillion economy with a population of over 1 billion. The second phase envisages the upgrading of the PTA into a so-called "new generation" free trade agreement, to cover services, investment and procurement.

**14.** The discussions pointed out that South Africa and India are not currently very important in either of each other's import or export basket, as both countries compete for consumers in bigger OECD markets. South Africa is India's 14th most important source of imports but only the 20th most important export destination. According to Philip Alves, a trade research intern at the South African Institute of International Affairs, South African imports from India were concentrated in textiles and clothing, raw hides and leather and vegetable products, while Indian imports from South Africa consists of minerals, chemicals, base metals, textiles and pulp. The Indian economy is far more protected than the Sacu economy, as Indian exports to Sacu currently face an unweighted average tariff of 12%, while South African exports to India face an unweighted average tariff of 24%.

**15.** According to Philip Alves, India regards an agreement with SACU as the best way to increase its commercial presence in the sub-Saharan region. Suresh Goel, India's Consul General in South Africa, said the free trade agreement would promote privileged market access for Indian and South African firms and increased trade between the two countries. According to Goel, Indian manufacturers should in future target the South African motor, pharmaceutical, chemical and textiles industries. Already two of India's prominent motor manufacturers, Tata and Mahindra, had entered the South African domestic market and Indian drug makers Cipla and Ranbaxy are also active in the domestic market. Julius Sen, an academic at the London School of economics, said India was unlikely to include agriculture in the free trade agreement as the sector was one of the most sensitive in India, with millions of small-scale farmers heavily dependent on farming.

**16.** From the discussions it was evident that although market access-related opportunities could exist for exporters in both regions, Sacu's textile, clothing and electronics industries would come under serious threat from Indian

imports if the trade barriers came down. The clothing and textiles industry as well as trade unions have expressed their concern about the proposed Free Trade Agreement with India. Philip Alves felt that the potential for increased intra-industry trade would be of considerable interest to politicians, as it will provide evidence in support of the argument that south-south integration can benefit all involved.

FRAZER